

Legislative Audit Division

State of Montana



Report to the Legislature

November 1997

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1997

Department of Agriculture

This report contains three recommendations. Suggestions for improvements in department operations include:

- ▶ **Improving accounting procedures related to the hail insurance program.**
- ▶ **Ensuring revenues and expenditures are properly classified on the accounting records.**
- ▶ **Documenting consideration of return-on-investment agreements.**

**Direct comments/inquiries to:
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Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705**

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act of 1984, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

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Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

November 1997

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Agriculture for fiscal years 1995-96 and 1996-97. Included in this report are recommendations concerning proper recording of transactions on the accounting records and documenting return-on-investment agreements. The department's written response to the audit recommendations is included in the back of the audit report.

We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

"Signature on File"

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1997

Department of Agriculture

Members of the audit staff involved in this audit were Frieda Houser, Susan McEachern, and Lorry Parriman.

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Appointed and Administrative Officials

Department of Agriculture

W. Ralph Peck, Director

Sandra Kuchenbrod, Administrator, Central Management Division

Gary L. Gingery, Administrator, Agricultural Sciences Division

Will Kissinger, Administrator, Agricultural Development Division

Administratively Attached Committees and Boards

Agricultural Development Council

Alfalfa Seed Committee

Montana Mint Committee

Montana Wheat and Barley Committee

Noxious Weed Advisory Council

Noxious Weed Seed Free Forage Advisory Council

State Board of Hail Insurance

Department of Agriculture

This report contains the results of our financial-compliance audit of the Department of Agriculture (department) for the two fiscal years ended June 30, 1997. The previous audit report contained five recommendations still applicable to the department. The department implemented two, partially implemented two and did not implement one of the recommendations. One recommendation partially implemented relates to produce dealer licenses and assessments. Since the department has made efforts to improve in this area, we make no further recommendation at this time. The other recommendation partially implemented relates to writing off uncollectible loans. This issue has been discussed with management and is not included in this report.

The one recommendation not implemented relates to documenting consideration of return-on-investment agreements. The issue is addressed in this audit report on page 11. Other recommendations in this report address how the department could improve its accounting procedures in the hail insurance program and ensuring financial activity is properly classified on the Statewide Budgeting and Accounting System (SBAS).

We issued a qualified opinion on the financial schedules presented in this report. This means the reader should use caution when relying on the presented financial information and the supporting detailed information on SBAS.

The department concurred with each of the recommendations in this report. The department's written response to the audit begins on page B-3.

Report Summary

The list below serves as a means of summarizing the recommendations contained in the report, the agency's response thereto, and a reference to the supporting comments.

Recommendation #1 We recommend the department establish procedures to ensure accurate and complete information in the accounting records for the hail insurance program in accordance with state law and accounting policy. 9

Agency Response: Concur. See page B-3.

Recommendation #2 We recommend the department implement procedures to ensure the proper revenue and expenditure classifications are used when recording activity on SBAS to comply with state accounting policy. 11

Agency Response: Concur. See page B-4.

Recommendation #3 We recommend the department retain documentation of consideration of return-on-investment agreements in the grant files. 12

Agency Response: Concur. See page B-4.

Introduction

Introduction

We performed a financial-compliance audit of the Department of Agriculture (department) for the two fiscal years ended June 30, 1997. The objectives of the audit were to determine if:

1. The department complied with applicable state and federal laws and regulations.
2. The department's administrative and accounting controls ensured resource use was consistent with laws and regulations; resources were safeguarded against waste, loss, and misuse; and financial information was maintained and fairly disclosed in the financial records.
3. The department's financial schedules present fairly the department's results of operations and changes in fund balances/property held in trust for the two fiscal years ended June 30, 1997.
4. The department implemented prior audit recommendations.

This report contains three recommendations to the department. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not included in this report but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

Background

The Constitution of the state of Montana mandates the legislature provide for a Department of Agriculture. The department's statutory functions and responsibilities are to:

1. Encourage and promote the interests of Montana agriculture.
2. Collect and publish agricultural statistics.
3. Assist, encourage and promote the organization of farmers' institutes, agricultural societies, fairs, and other exhibitions of agriculture.
4. Adopt standards for grade and other classifications of farm products.

Introduction

5. Assist in the development of economical and efficient marketing distribution systems.
6. Gather and distribute marketing information concerning supply, demand, price, and movement of farm products.
7. Regulate and protect Montana agricultural activities through the administration of agriculture-related statutes.

The department consists of the following divisions:

Central Management Division - includes the director's office and provides support to all of the programs in the department by performing accounting, fiscal management, payroll, personnel, purchasing, property control, data processing, and legal support functions.

Agricultural Sciences Division - administers agricultural programs relating to the production, manufacturing, and marketing of commodities exported from or distributed in the state. It provides services to the agricultural industry by: performing professional insect/disease surveys; performing comprehensive feed mill inspections; issuing dealer licenses and permits; issuing official grade commodity certificates; registering products; performing analyses of bees, seeds, fertilizer, feed, and grains; and collecting various assessment fees. It also administers the Montana Pesticides Act, the Crop Insect Detection Act, the Vertebrate Pest Management Act, Agricultural Chemical Groundwater Protection Act, Noxious Weed Trust Fund Act, elements of the Weed Assistance Act, and the department's Chemical Analytical Laboratory. Division personnel provide technical and consultant services to consumers and agricultural producers.

Agricultural Development Division - provides administrative support to the Alfalfa Seed Committee, the Montana Wheat and Barley Committee, the Montana Agricultural Development Council and the Board of Hail Insurance. The division is comprised of three bureaus:

Rural Development Bureau - provides direct, low-interest agricultural loans; administers the state hail insurance program; provides for the development and enhancement of new and existing agricultural crops and value added products; collects and publishes statistical information; provides research and market development for alfalfa seed; and administers the Montana Growth Through

Agriculture Act, a program designed to strengthen and diversify the state's agricultural industry.

State Grain Laboratory Bureau - provides grading, protein determination, and malting barley germination tests to support contract settlement prices between buyers and sellers of grain crops in Montana. The department operates a state grain laboratory in Great Falls. During fiscal year 1995-96, the department also operated a grain laboratory in Wolf Point. However, this laboratory closed in April, 1996.

Wheat and Barley Bureau - promotes market development and scientific research of wheat and barley culture, production, and use. The bureau is located in Great Falls.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed an audit of the department for the two fiscal years ended June 30, 1995. The prior audit report contained five recommendations still applicable to the department. The department has implemented two, partially implemented two, and did not implement one of the recommendations.

The first recommendation partially implemented relates to produce dealer licenses and assessments. The department has improved its efforts in this area; therefore, we make no further recommendation at this time. The other partially implemented recommendation relates to write off of uncollectible loans and has been discussed with management.

The one recommendation not implemented relates to documenting the consideration of return-on-investment agreements. This issue is discussed on page 11.

Findings and Recommendations

Accounting Issues

Section 17-1-102(5), MCA, requires state agencies to input all necessary transactions to the accounting system before the end of the fiscal year in order to present the receipt, use, and disposition of resources in accordance with generally accepted accounting principles. State accounting policy provides guidance on how to record activity in accordance with this state law. We noted several instances where activity was not properly recorded on the Statewide Budgeting and Accounting System (SBAS) in accordance with generally accepted accounting principles. The following sections discuss ways the department can improve its compliance with this state law and state accounting policy.

Hail Insurance Program Accounting

The department is responsible for operating the state's hail insurance program. Premiums are collected by the individual counties under a contract with the state and losses are paid directly to policyholders by the department. This activity is recorded in the department's Enterprise Fund. State accounting policy states Enterprise Fund activity must be recorded using the full accrual method of accounting. This means revenue is recorded in the fiscal year it is earned and expenses are recorded in the year they are incurred. Because the hail season generally runs from May through mid-October, department personnel must accrue activity related to the beginning of the hail season (May and June). At the end of each fiscal year, department personnel estimate the losses incurred but not yet reported and establish a liability for these losses. An accounts receivable is also established for policies issued by fiscal year-end for which the premiums have not been collected and transmitted to the department. Based on the estimated loss liability, the department defers premium revenues.

Based on our audit, we noted several instances where hail insurance program financial activity was not properly recorded on the accounting records. The following paragraphs outline the errors noted.

- Based on our review of department records, we noted revenue that was not properly deferred into fiscal year 1995-96. By not properly deferring this revenue, the beginning fund balance is overstated and revenues are understated by \$467,983 in fiscal

Findings and Recommendations

year 1995-96. This error caused us to qualify our opinion on the financial schedules as noted on page A-3.

- The department makes payments to the counties of 2 percent of the gross annual premiums collected. When this payment was accrued at the end of fiscal year 1994-95, the amount was input incorrectly as \$909 rather than \$9,090. Because of this error, the beginning fund balance and expenditures are overstated in fiscal year 1995-96 by \$8,181.
- At the end of the hail season, usually in October, the department compares the amount of liability recorded in the previous fiscal year to the amount of losses that were actually paid for storms occurring in May and June. Department personnel make an adjustment for the difference to reflect actual losses that occurred. In fiscal year 1996-97, when making this adjustment, it was determined initially additional losses of \$326,627 occurred. When the adjusting entry was made the amount was input incorrectly as \$32,627 and the accounts used were inadvertently reversed. It was later determined actual losses were underestimated by \$470,541 not the \$326,627 originally determined. No adjustment was ever made to reflect this additional loss amount or to correct the errors noted above.
- At the end of the year, the department establishes receivables for policies issued where the premiums have not yet been collected. At the end of fiscal year 1996-97, we noted \$94,410 of premiums for policies that were effective by June 30, 1997 that were not recorded on SBAS. Department personnel stated because these policies had not been received from the counties by June 30, they were unable to determine the proper amount to accrue. However, at the time the accruals were being recorded on SBAS, these policies had been received and therefore, the accruals should have been recorded. As a result, the department's receivables and deferred revenues are understated by \$94,410.
- We noted the department did not properly eliminate the liability established at fiscal year-end 1995-96 for the 2 percent payment to counties. This liability balance remained at the end of fiscal year 1996-97. Therefore, liabilities and expenditures are overstated by \$5,847 and ending fund balance is understated by this amount in fiscal year 1996-97.

Findings and Recommendations

Summary

As a result of the errors discussed in the paragraphs above, the beginning fund balance in the Enterprise Fund in fiscal year 1995-96 is overstated by \$476,164, revenues are understated by \$467,983, and expenditures are overstated by \$8,181. In fiscal year 1996-97, assets are understated by \$94,410, liabilities are understated by \$155,042 and ending fund balance is overstated by \$60,632.

Department personnel indicated these misstatements occurred due to human error when recording this activity on SBAS. Although the prior audit made no recommendation regarding the hail insurance program accounting, these type of errors have been identified in past audits. Accounting personnel should implement procedures to perform the necessary reviews to ensure the information recorded is accurate and complete. Department personnel should also establish fiscal year-end procedures which ensure all expenditure and revenue transactions are properly recorded on the state's accounting records.

Recommendation #1

We recommend the department establish procedures to ensure accurate and complete information in the accounting records for the hail insurance program in accordance with state law and accounting policy.

Revenue and Expenditure Misclassifications

State accounting policy defines the revenue classifications and objects of expenditure to use when recording revenues and expenditures on SBAS. We noted several instances where revenues and expenditures were not properly classified on SBAS.

- In fiscal year 1996-97, we noted premium revenues related to the state's hail insurance program were improperly recorded on SBAS as premium penalty and interest. As a result, the charges for services revenue class is understated and fines and forfeits revenue class is overstated by \$93,459 in the Enterprise Fund.
- Section 80-3-314 requires produce sold or distributed in this state be assessed a fee per produce unit or equivalent poundage. The assessment is set by administrative rule at 3.5 cents per produce unit. Since produce dealers are required by state law

Findings and Recommendations

to pay these assessments, this revenue should be classified as taxes. This revenue is reported as charges for services in the accounting records. When the department initially sent documentation to the Accounting Bureau at the Department of Administration, the bureau set up the assessment revenue to report as charges for services. If this reporting was inappropriate, the department should have questioned the classification. As a result, the taxes revenue class is understated and charges for services are overstated in the Special Revenue Fund by \$222,480 and \$155,848 in fiscal years 1995-96 and 1996-97, respectively.

- The department administers the Montana Agricultural Chemical Groundwater Protection Act. Section 80-15-302, MCA, requires the department to transfer monies annually to Montana State University (MSU) and the Department of Environmental Quality (DEQ) for assistance provided to the department. The department's Agricultural Sciences Division is responsible for administering this program. We noted the department transferred the required amounts to MSU and DEQ. However, these transfers were inappropriately established to report to the Agricultural Development Division program rather than the Agricultural Sciences Division program in the accounting records. As a result, accounting entity transfers of \$45,000 and \$30,000 were mis-reported between programs for fiscal years 1995-96 and 1996-97, respectively.
- Section 80-2-232, MCA, provides for payments to counties equaling 2 percent of the gross annual premiums collected by that county for state hail insurance. At the end of the hail season when the payments are made to the counties, these expenditures are classified as commissions. However, when the department accrued this activity at fiscal year-end, it was misclassified as local assistance. Since the counties are statutorily required to collect hail premiums, these payments should be classified as commissions. As a result, local assistance expenditures are overstated and other services expenditures are understated in the Enterprise Fund by \$5,847 and \$12,946 for fiscal years 1995-96 and 1996-97, respectively.

The misclassification of hail premium revenues occurred in part due to errors made at the county level when the revenues were reported on the monthly collection reports submitted to the Department of Administration. However, since this revenue belongs to the department, we believe the department is ultimately responsible for

Findings and Recommendations

ensuring these revenues are recorded properly on SBAS. As previously noted, department officials stated the produce assessments were initially set up as charges for services rather than tax revenues. The remaining misclassification errors noted above occurred due to human error in recording this activity on SBAS.

Recommendation #2

We recommend the department implement procedures to ensure the proper revenue and expenditure classifications are used when recording activity on SBAS to comply with state accounting policy.

State Compliance

Return-on-Investment Agreement Documentation

Section 90-9-303, MCA, requires the department to enter into return-on-investment agreements for products or processes that are to be developed and commercialized as a result of investments made by the Agricultural Development Council. State law requires payment of a return-on-investment which the council considers commensurate with the risk of its original investment. Without the agreements, the state cannot recover its investment for those products or processes which become profitable.

During the prior audit, we recommended the department ensure documentation for the consideration of return-on-investment agreements be included in the grant files. During our current audit, based on our review of the grant files, we noted four grant files where there was no documentation to indicate a return-on-investment agreement was ever considered.

To address our prior audit recommendation, department personnel stated they began using a check sheet for these grants, which includes a section regarding return-on-investment agreements. However, due to a change in personnel, these check sheets were not retained in the grant files.

Findings and Recommendations

Recommendation #3

We recommend the department retain documentation of consideration of return-on-investment agreements in the grant files.

Independent Auditor's Report & Agency Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Agriculture for each of the two fiscal years ended June 30, 1996 and 1997, as shown on pages A-5 through A-13. The information contained in these financial schedules is the responsibility of department management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

The department did not properly defer revenue in the Enterprise Fund at fiscal year-end 1994-95 for the hail insurance program. As a result, beginning fund balance is overstated and revenues are understated by \$467,983 on the Schedule of Changes in Fund Balances & Property Held in Trust in fiscal year 1995-96. Charges for services on the Schedule of Total Revenues & Transfers-In are understated by the same amount.

In our opinion, except for the effects of the matters discussed in paragraph four, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances/property held in trust of the Department of Agriculture for the two fiscal years ended June 30, 1996 and 1997, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

August 29, 1997

DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

	General Fund	Special Revenue Fund	Enterprise Fund	Agency Fund	Expendable Trust Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1996	\$ <u>(18,060)</u> ¹	\$ <u>6,581,055</u>	\$ <u>4,840,176</u> ¹	\$ <u>0</u>	\$ <u>2,820,840</u>	\$ <u>2,500,004</u>
PROPERTY HELD IN TRUST: July 1, 1996				\$ <u>2,938,771</u>		
ADDITIONS						
Budgeted Revenues & Transfers-In	26,922	6,182,344	2,612,120		233,676	395,628
Nonbudgeted Revenues & Transfers-In		692,906				
Prior Year Revenues & Transfers-In Adjustments		39,055	50,267		2,286	
Cash Transfers In (Out)	407,648	(86,128)				13,236
Direct Entries to Fund Balance			(3,551)			
Additions to Property Held in Trust				292,200		
Total Additions	<u>434,570</u>	<u>6,828,177</u>	<u>2,658,836</u>	<u>292,200</u>	<u>235,962</u>	<u>408,864</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	465,914	7,089,724	2,070,405		103,432	
Nonbudgeted Expenditures & Transfers-Out		126,574	(1,669)			382,330
Prior Year Expenditures & Transfers-Out Adjustments	(1,222)	(142,864)	(29,020)		(211)	
Reductions to Property Held in Trust				76,185		
Total Reductions	<u>464,692</u>	<u>7,073,434</u>	<u>2,039,716</u>	<u>76,185</u>	<u>103,221</u>	<u>382,330</u>
FUND BALANCE: June 30, 1997	\$ <u>(48,182)</u> ¹	\$ <u>6,335,798</u>	\$ <u>5,459,296</u>	\$ <u>0</u>	\$ <u>2,953,581</u>	\$ <u>2,526,538</u>
PROPERTY HELD IN TRUST: June 30, 1997				\$ <u>3,154,786</u>		

¹ See note 2 on page A-13.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	General Fund	Special Revenue Fund	Enterprise Fund	Agency Fund	Expendable Trust Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1995	\$ (29,672) ¹	\$ 5,633,397	\$ 5,635,115	\$ 0	\$ 2,701,805	\$ 2,544,390
PROPERTY HELD IN TRUST: July 1, 1995				\$ 2,922,738		
ADDITIONS						
Budgeted Revenues & Transfers-In	28,455	7,308,685	2,085,006		217,176	368,841
Nonbudgeted Revenues & Transfers-In		685,460				
Prior Year Revenues & Transfers-In Adjustments		48,744	370,731			(1,934)
Cash Transfers In (Out)	475,021	(20,823)				11,912
Additions to Property Held in Trust				469,201		
Total Additions	503,476	8,022,066	2,455,737	469,201	217,176	378,819
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	491,678	7,090,503	3,630,442		91,370	
Nonbudgeted Expenditures & Transfers-Out		161,340	524		6,771	378,673
Prior Year Expenditures & Transfers-Out Adjustments	186	(177,435)	(380,290)			44,532
Reductions to Property Held in Trust				453,168		
Total Reductions	491,864	7,074,408	3,250,676	453,168	98,141	423,205
FUND BALANCE: June 30, 1996	\$ (18,060) ¹	\$ 6,581,055	\$ 4,840,176	\$ 0	\$ 2,820,840	\$ 2,500,004
PROPERTY HELD IN TRUST: June 30, 1996				\$ 2,938,771		

¹ See note 2 on page A-13.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

	General Fund	Special Revenue Fund	Enterprise Fund	Expendable Trust Fund	Nonexpendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 16,951	\$ 1,456,703				\$ 1,473,654
Taxes		2,822,112 ¹			\$ 15,119	2,837,231
Charges for Services	6,228	1,014,950	\$ 2,274,819	\$ 120		3,296,117
Investment Earnings		275,192	288,068	230,907	370,509	1,164,676
Fines and Forfeits	3,744		99,409			103,153
Federal Indirect Cost Recoveries		53,521				53,521
Sale of Documents, Merchandise and Property		9,776	90			9,866
Miscellaneous					10,000	10,000
Grants, Contracts, Donations and Abandonments		4,898		4,935		9,833
Other Financing Sources		692,906				692,906
Federal		584,247				584,247
Total Revenues & Transfers-In	26,923	6,914,305	2,662,386	235,962	395,628	10,235,204
Less: Nonbudgeted Revenues & Transfers-In		692,906				692,906
Prior Year Revenues & Transfers-In Adjustments		39,055	50,267	2,286		91,608
Actual Budgeted Revenues & Transfers-In	26,923	6,182,344	2,612,119	233,676	395,628	9,450,690
Estimated Revenues & Transfers-In	30,000	7,396,747	2,500,195	210,100	363,200	10,500,242
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (3,077)	\$ (1,214,403)	\$ 111,924	\$ 23,576	\$ 32,428	\$ (1,049,552)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$ (3,049)	\$ 101,061				\$ 98,012
Taxes		(391,779)			\$ 2,119	(389,660)
Charges for Services	(1,772)	(753,368)	\$ 21,108	\$ (480)		(734,512)
Investment Earnings		17,317	(2,582)	23,621	30,309	68,665
Fines and Forfeits	1,744	(1,200)	93,408			93,952
Federal Indirect Cost Recoveries		(775)				(775)
Sale of Documents, Merchandise and Property		(3,674)	(10)			(3,684)
Miscellaneous		(2,200)				(2,200)
Grants, Contracts, Donations and Abandonments		(82,202)		435		(81,767)
Other Financing Sources						0
Federal		(97,583)				(97,583)
Budgeted Revenues & Transfers-In Over (under) Estimated	\$ (3,077)	\$ (1,214,403)	\$ 111,924	\$ 23,576	\$ 32,428	\$ (1,049,552)

¹ See note 3 on page A-13.

DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	General Fund	Special Revenue Fund	Enterprise Fund	Expendable Trust Fund	Nonexpendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 17,832	\$ 1,388,102			\$	\$ 1,405,934
Taxes		3,623,666 ¹			9,501	3,633,167
Charges for Services	2,323	1,359,024	\$ 2,184,446	\$ 350		3,546,143
Investment Earnings		300,807	270,092	212,501	357,406	1,140,806
Fines and Forfeits	8,300		1,199			9,499
Federal Indirect Cost Recoveries		38,805				38,805
Sale of Documents, Merchandise and Property		16,662				16,662
Miscellaneous						0
Grants, Contracts, Donations and Abandonments		73,179		4,325		77,504
Other Financing Sources		729,992				729,992
Federal		512,652				512,652
Total Revenues & Transfers-In	28,455	8,042,889	2,455,737	217,176	366,907	11,111,164
Less: Nonbudgeted Revenues & Transfers-In		685,460				685,460
Prior Year Revenues & Transfers-In Adjustments		48,744	370,731		(1,934)	417,541
Actual Budgeted Revenues & Transfers-In	28,455	7,308,685	2,085,006	217,176	368,841	10,008,163
Estimated Revenues & Transfers-In	31,000	7,744,910	2,812,050	206,600	326,100	11,120,660
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (2,545)	\$ (436,225)	\$ (727,044)	\$ 10,576	\$ 42,741	\$ (1,112,497)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$ (1,168)	\$ 8,322			\$	\$ 7,154
Taxes		63,376			(565)	62,811
Charges for Services	(7,677)	(407,882)	\$ (691,735)	\$ (250)		(1,107,544)
Investment Earnings		75,307	(30,408)	11,501	43,306	99,706
Fines and Forfeits	6,300	(1,600)	(4,801)			(101)
Federal Indirect Cost Recoveries		(19,463)				(19,463)
Sale of Documents, Merchandise and Property		2,676	(100)			2,576
Miscellaneous		(4,500)				(4,500)
Grants, Contracts, Donations and Abandonments		(16,391)		(675)		(17,066)
Other Financing Sources						0
Federal		(136,070)				(136,070)
Budgeted Revenues & Transfers-In Over (under) Estimated	\$ (2,545)	\$ (436,225)	\$ (727,044)	\$ 10,576	\$ 42,741	\$ (1,112,497)

¹ See note 3 on page A-13.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

	Central Management Division	Agricultural Sciences Div.	Agricultural Development	Total
PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT				
Personal Services				
Salaries	\$ 350,131	\$ 1,388,797	\$ 666,613	\$ 2,405,541
Hourly Wages		50,160	88,300	138,460
Other Compensation		2,250	6,551	8,801
Employee Benefits	81,999	371,177	184,857	638,033
Personal Services-Other			1,530	1,530
Total	<u>432,130</u>	<u>1,812,384</u>	<u>947,851</u>	<u>3,192,365</u>
Operating Expenses				
Other Services	16,780	371,169	221,490	609,439
Supplies & Materials	16,511	127,108	35,939	179,558
Communications	8,715	58,842	53,515	121,072
Travel	11,905	80,025	108,728	200,658
Rent	19,843	51,097	30,943	101,883
Utilities			7,544	7,544
Repair & Maintenance	2,914	27,761	6,874	37,549
Other Expenses	16,439	45,138	677,172	738,749
Total	<u>93,107</u>	<u>761,140</u>	<u>1,142,205</u>	<u>1,996,452</u>
Equipment & Intangible Assets				
Equipment	26,347	235,533	42,358	304,238
Intangible Assets		1,199	799	1,998
Total	<u>26,347</u>	<u>236,732</u>	<u>43,157</u>	<u>306,236</u>
Local Assistance				
From Other Income Sources			12,946	12,946
Total			<u>12,946</u>	<u>12,946</u>
Grants				
From State Sources		1,437,066	949,998	2,387,064
Total		<u>1,437,066</u>	<u>949,998</u>	<u>2,387,064</u>
Benefits & Claims				
From State Sources			1,714,008	1,714,008
Total			<u>1,714,008</u>	<u>1,714,008</u>
Transfers				
Accounting Entity Transfers		382,330	71,993	454,323
Total		<u>382,330</u>	<u>71,993</u>	<u>454,323</u>
Total Program Expenditures & Transfers-Out	\$ <u>551,584</u>	\$ <u>4,629,652</u>	\$ <u>4,882,158</u> ¹	\$ <u>10,063,394</u>
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 163,449	\$ 98,898	\$ 202,346	\$ 464,693
Special Revenue Fund	351,587	4,145,743	2,576,105	7,073,435
Enterprise Fund	26,980	2,681	2,010,054	2,039,715
Expendable Trust Fund	9,568		93,653	103,221
Nonexpendable Trust Fund		382,330		382,330
Total Program Expenditures & Transfers-Out	<u>551,584</u>	<u>4,629,652</u>	<u>4,882,158</u>	\$ <u>10,063,394</u>
Less: Nonbudgeted Expenditures & Transfers-Out		382,330	124,906	507,236
Prior Year Expenditures & Transfers-Out Adjustments	(837)	(140,345)	(32,135)	(173,317)
Actual Budgeted Expenditures & Transfers-Out	<u>552,421</u>	<u>4,387,667</u>	<u>4,789,387</u>	<u>9,729,475</u>
Budget Authority	562,762	4,720,565	6,798,380	12,081,707
Unspent Budget Authority	\$ <u>10,341</u>	\$ <u>332,898</u>	\$ <u>2,008,993</u>	\$ <u>2,352,232</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 65	\$ 10,325	\$ 3,925	\$ 14,315
Special Revenue Fund	10,276	319,588	732,820	1,062,684
Enterprise Fund		2,985	1,265,866	1,268,851
Expendable Trust Fund			6,382	6,382
Nonexpendable Trust Fund				0
Unspent Budget Authority	\$ <u>10,341</u>	\$ <u>332,898</u>	\$ <u>2,008,993</u>	\$ <u>2,352,232</u>

¹ See note 3 on page A-13.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	Central Management Division	Agricultural Sciences Div.	Agricultural Development	Total
Personal Services				
Salaries	\$ 334,485	\$ 1,271,783	\$ 800,527	\$ 2,406,795
Hourly Wages		52,119	68,062	120,181
Other Compensation		2,225	7,051	9,276
Employee Benefits	79,441	355,967	211,368	646,776
Personal Services-Other			1,007	1,007
Total	<u>413,926</u>	<u>1,682,094</u>	<u>1,088,015</u>	<u>3,184,035</u>
Operating Expenses				
Other Services	43,467	358,070	233,657	635,194
Supplies & Materials	10,214	115,092	49,529	174,835
Communications	9,482	64,107	63,119	136,708
Travel	14,253	69,944	122,494	206,691
Rent	22,989	51,956	32,551	107,496
Utilities			8,308	8,308
Repair & Maintenance	3,840	17,881	13,523	35,244
Other Expenses	12,011	27,316	685,100	724,427
Total	<u>116,256</u>	<u>704,366</u>	<u>1,208,281</u>	<u>2,028,903</u>
Equipment & Intangible Assets				
Equipment	14,218	262,890	13,311	290,419
Total	<u>14,218</u>	<u>262,890</u>	<u>13,311</u>	<u>290,419</u>
Local Assistance				
From Other Income Sources			5,847	5,847
Total			<u>5,847</u>	<u>5,847</u>
Grants				
From State Sources		1,377,040	983,472	2,360,512
Total		<u>1,377,040</u>	<u>983,472</u>	<u>2,360,512</u>
Benefits & Claims				
From State Sources			2,962,313	2,962,313
Total			<u>2,962,313</u>	<u>2,962,313</u>
Transfers				
Accounting Entity Transfers	10,000	423,205	73,061	506,265
Total	<u>10,000</u>	<u>423,205</u>	<u>73,061</u>	<u>506,265</u>
Total Program Expenditures & Transfers-Out	<u>\$ 554,400</u>	<u>\$ 4,449,595</u>	<u>\$ 6,334,300 ¹</u>	<u>\$ 11,338,294</u>
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 190,017	\$ 101,539	\$ 200,308	\$ 491,864
Special Revenue Fund	328,847	3,919,771	2,825,790	7,074,408
Enterprise Fund	26,233	5,079	3,219,364	3,250,676
Expendable Trust Fund	9,303		88,838	98,141
Nonexpendable Trust Fund		423,205		423,205
Total Program Expenditures & Transfers-Out	<u>554,400</u>	<u>4,449,594</u>	<u>6,334,300</u>	<u>11,338,294</u>
Less: Nonbudgeted Expenditures & Transfers-Out		378,673	168,635	547,308
Prior Year Expenditures & Transfers-Out Adjustments	145	(138,076)	(375,076)	(513,007)
Actual Budgeted Expenditures & Transfers-Out	<u>554,255</u>	<u>4,208,997</u>	<u>6,540,741</u>	<u>11,303,993</u>
Budget Authority	585,096	4,509,144	7,082,067	12,176,307
Unspent Budget Authority	<u>\$ 30,841</u>	<u>\$ 300,147</u>	<u>\$ 541,326</u>	<u>\$ 872,314</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 7,748	\$ 7,939	\$ 7,856	\$ 23,543
Special Revenue Fund	23,093	291,683	416,606	731,382
Enterprise Fund		525	104,545	105,070
Expendable Trust Fund			12,319	12,319
Nonexpendable Trust Fund				0
Unspent Budget Authority	<u>\$ 30,841</u>	<u>\$ 300,147</u>	<u>\$ 541,326</u>	<u>\$ 872,314</u>

¹ See note 3 on page A-13.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1997

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Expendable Trust, and Agency Funds. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for Proprietary and Nonexpendable Trust Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Budgeting and Accounting System without adjustment.

Accounts are organized in funds according to state law. The department uses the following funds:

Notes to the Financial Schedules

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include activities related to the Montana Growth Through Agriculture program; registration and inspections of fertilizers and feed; grain inspections; wheat, barley, and alfalfa seed market promotion; and noxious weed management projects.

Proprietary Funds

Enterprise Fund - to account for operations where the Legislature (a) intends the department finance or recover costs primarily through user charges in a manner similar to private business enterprises; or (b) decides periodic determination of revenues earned, expenses incurred, or net income is appropriate. Department Enterprise Funds include the Alfalfa Leaf Cutting Bee program and the Hail Insurance program.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Department fiduciary funds include Expendable Trust Funds, Nonexpendable Trust Funds, and Agency Funds.

The Expendable Trust Fund holds Rural Development assets transferred to the state under the Rural Rehabilitation Corporation Liquidation Act. The department uses these funds to operate its Rural Development Loan Programs.

The Nonexpendable Trust Fund holds 50 percent of the proceeds from a surcharge assessed on registered herbicides sold for consumer use. Section 80-7-814, MCA, states when the principal in this fund reaches \$2.5 million, any interest generated may be expended for noxious weed management projects, as long as the principal remains at least \$2.5 million. The principal reached \$2.5 million on July 31, 1992. The surcharge was terminated on December 31, 1993, in accordance with state law. The termination

Notes to the Financial Schedules

of the surcharge does not prevent the department from expending the interest earnings on projects.

The Agency Fund accounts for commercial pesticide applicators' certificates of deposit which the state holds to ensure the public will be compensated if applicators are negligent. The department also holds certificates of deposit and letters of credit from commodity dealers, produce wholesalers, and public warehousemen to meet bonding requirements. Commodity dealers, produce wholesalers, and public warehousemen may also insure themselves through private bonding companies.

2. General Fund Balance

The negative fund balances in the General Fund do not indicate overspent appropriation authority. The department does not have a separate General Fund since it has authority to pay obligations from the statewide General Fund within its appropriation limits. The department uses cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the department has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 1996 and June 30, 1997.

3. Revenue and Expenditure Changes Between Years

Effective July 1, 1996, the department lowered the wheat and barley assessments. This was the primary cause for the decrease in tax revenues in the Special Revenue Fund between fiscal years 1995-96 and 1996-97 as shown on the Schedules of Total Revenues & Transfers-In.

As shown on the Schedules of Total Expenditures & Transfers-Out, benefits and claims expenditures in the Agricultural Development program decreased significantly between fiscal years 1995-96 and 1996-97. This decrease was primarily the result of the severe hail season experienced in 1995-96.

Agency Response



MARC RACICOT
GOVERNOR

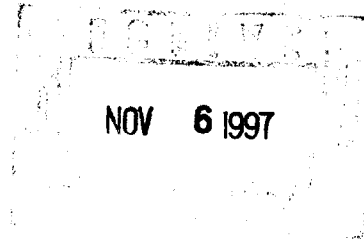
MONTANA DEPARTMENT OF AGRICULTURE

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November 5, 1997



Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

I would like to thank you and your staff for the courteous and professional manner in which the financial-compliance audit of the Department of Agriculture was conducted. Following are the responses to the audit recommendations of the two fiscal years ending June 30, 1997:

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT ESTABLISH PROCEDURES TO ENSURE ACCURATE AND COMPLETE INFORMATION IN THE ACCOUNTING RECORDS FOR THE HAIL INSURANCE PROGRAM IN ACCORDANCE WITH STATE LAW AND ACCOUNTING POLICY.

RESPONSE: The department concurs and has restructured work assignments and responsibilities within the hail insurance program. We are establishing procedures to ensure accurate and complete accounting records by:

- 1) providing detailed written standard operating procedures for hail insurance reporting with rigid deadlines for the proper recording and evaluation of revenues and expenditures, and
- 2) establishing performance appraisal periods of less than one year for appropriate staff through the biennium.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO ENSURE THE PROPER REVENUE AND EXPENDITURE CLASSIFICATIONS ARE USED WHEN RECORDING ACTIVITY ON SBAS TO COMPLY WITH STATE ACCOUNTING POLICY.

RESPONSE: The department concurs. The department will implement procedures and training to ensure revenue and expenditure classifications are properly recorded. Supervisors will review SBAS documents to ensure accuracy.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT RETAIN DOCUMENTATION OF CONSIDERATION OF RETURN-ON-INVESTMENT AGREEMENTS IN THE GRANT FILES.

RESPONSE: We concur. The department will ensure that appropriate personnel are cognizant of the significance of retaining the return on investment forms in the files.

Should you have any questions concerning the department's response, please feel free to contact me.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ralph Peck". The signature is stylized with a large, looping initial "R" and a cursive "Peck".

W. Ralph Peck
Director